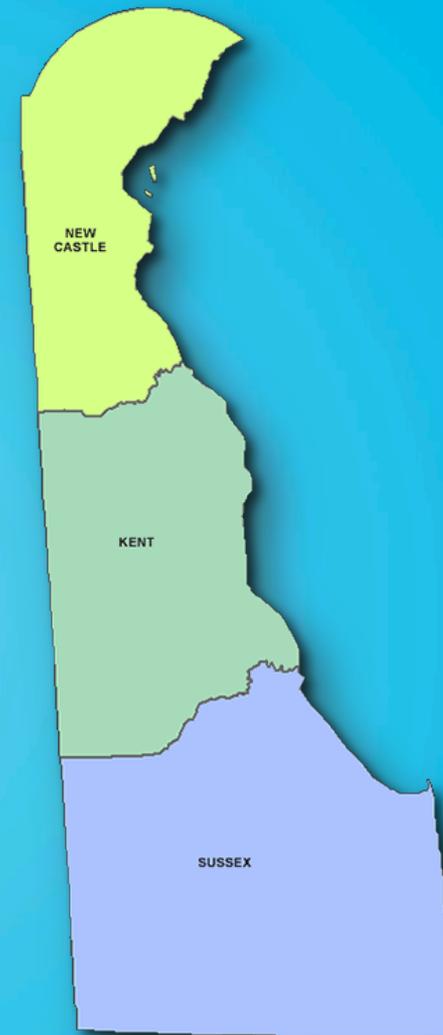


Highmark Delaware Presentation to State Employees Health Plan Task Force

October 22, 2015



Discussion Topics

- Hospital Reimbursement Overview
- Hospital Casemix Adjusted Discharge Analysis
- Outpatient Site of Service Differential
- Questions

Hospital Reimbursement Overview

ENVIRONMENT

- Hospital spend represents largest portion of total medical spend.
- Delaware hospital market is dominated by a single hospital or system in each region.
- Hospital acquisitions of physician practices have accelerated and increase costs to the system.
- Hospital payments per casemix adjusted commercial admission are significantly higher in Delaware than other Highmark markets.
- Hospital payments from Medicaid and Medicare are significantly lower than commercial payments for similar services.
- Medicaid payments to Delaware hospitals for inpatient services are approximately 56% of commercial payments for similar services.

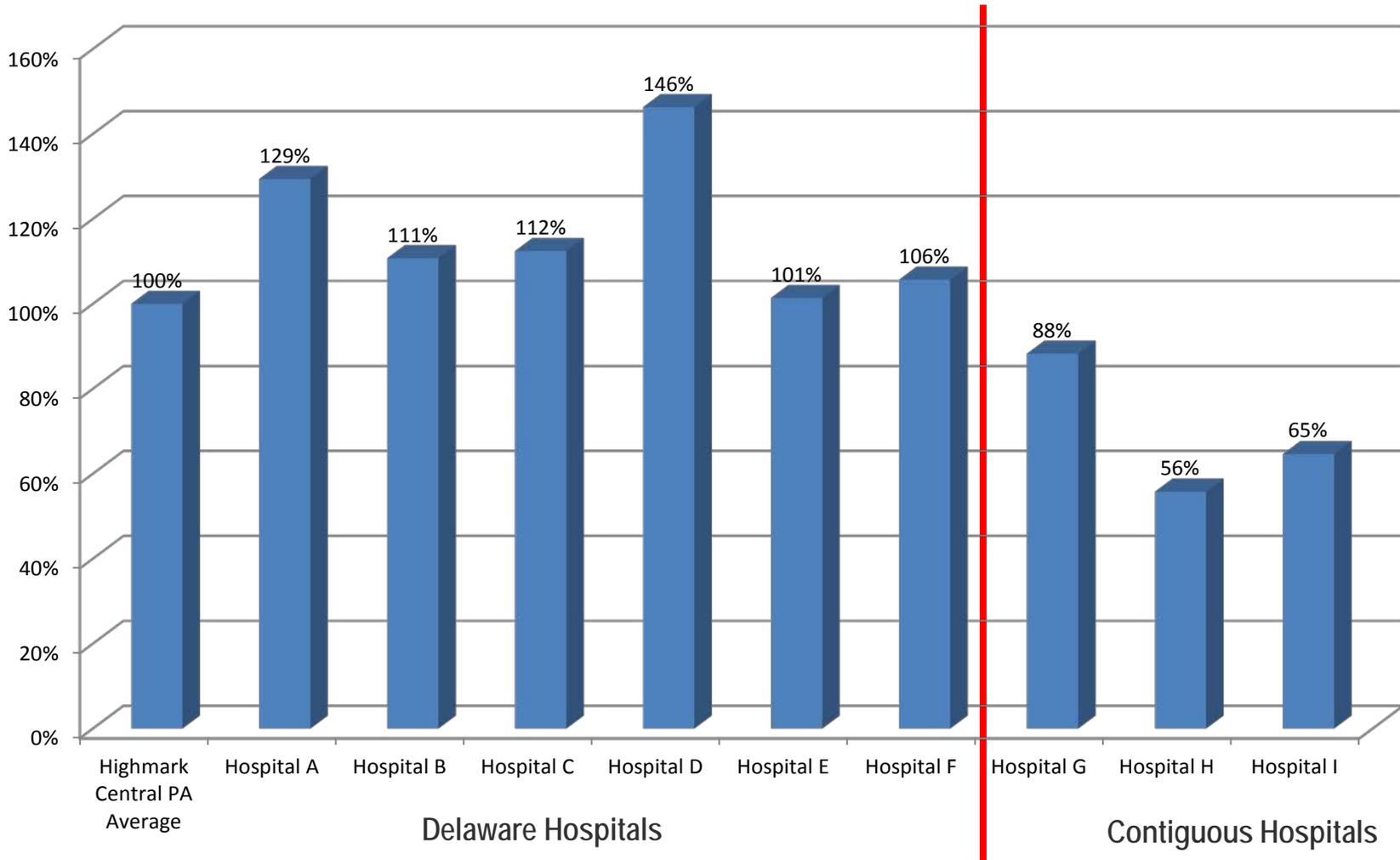
INPATIENT SERVICES

- Highmark is converting hospital reimbursement from fee-for-service to DRG-based agreements and is targeting to have migrated 80% of Inpatient claims activity to a DRG-based approach by the end of 2016.
- DRG-based contracts have fixed annual increases based on quality performance.
- Three Delaware hospitals are also participating in Highmark's Hospital Quality Blue Program

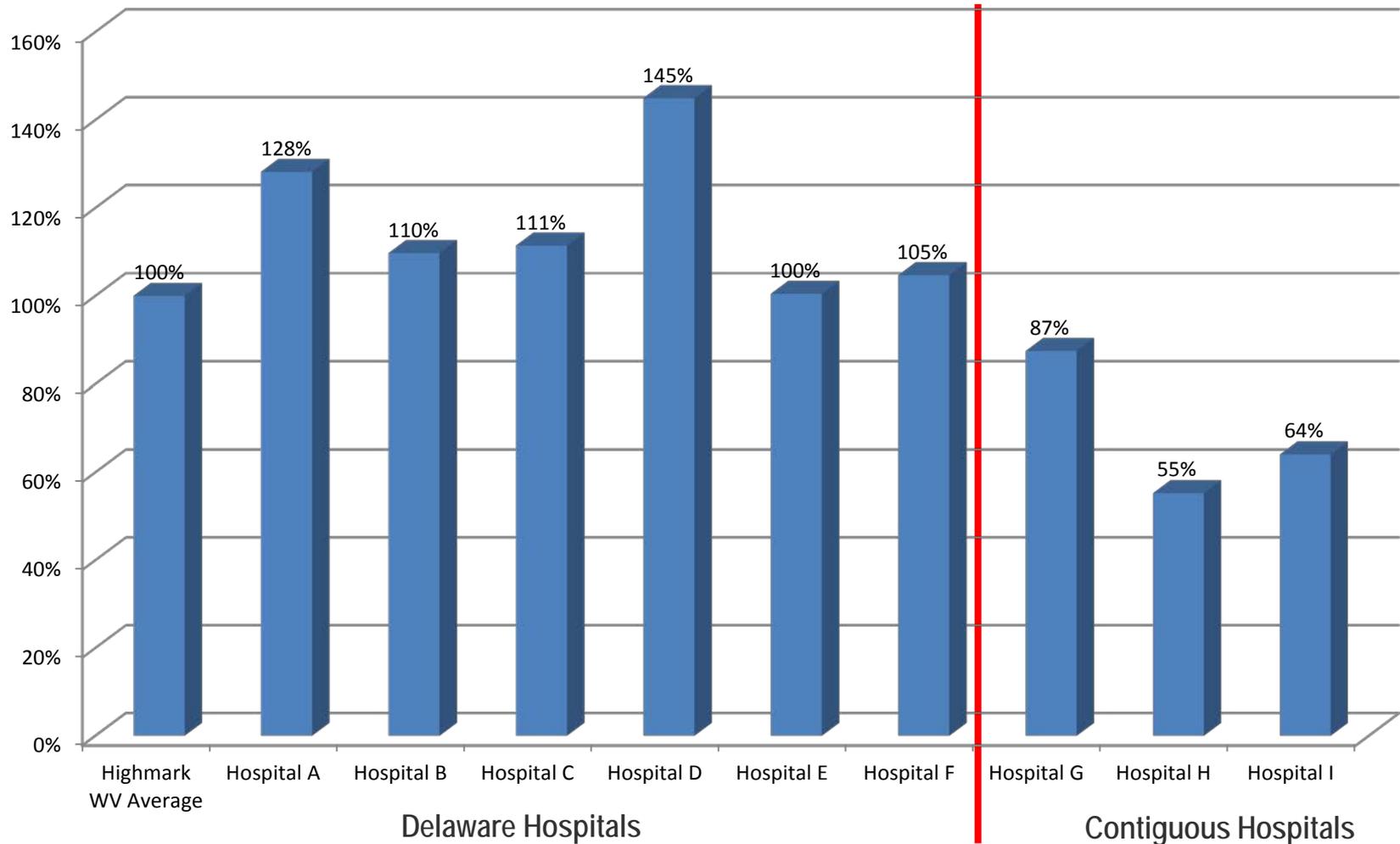
OUTPATIENT SERVICES

- Highmark has converted many high volume services from percentage of charges to fixed fee schedules or case rates at most hospitals.
- Products are being modified to incentive use of high-quality cost-effective alternatives.

Hospital Casemix Adjusted Discharge Analysis (Percentage of Highmark Central Pennsylvania Average)



Hospital Casemix Adjusted Discharge Analysis (Percentage of Highmark West Virginia Average)



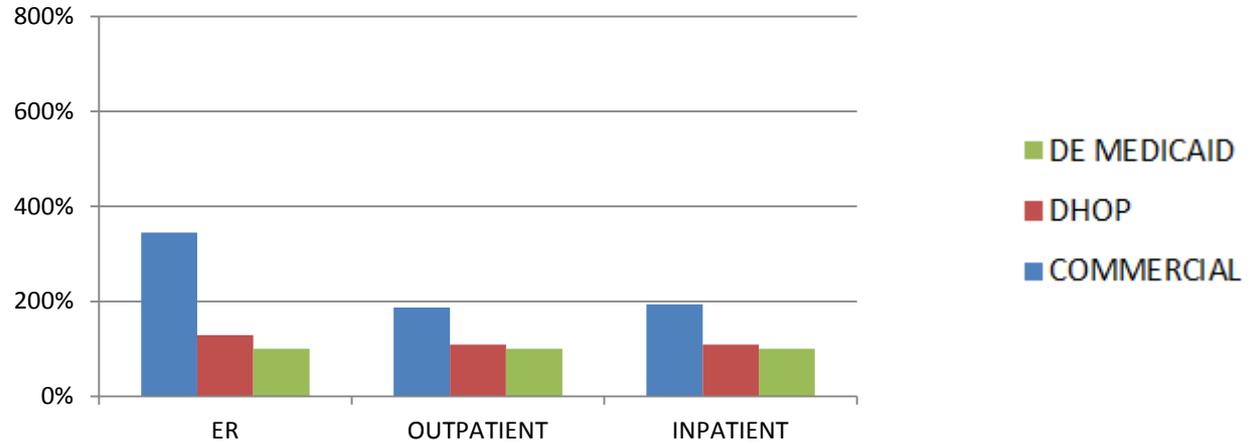
Site of Service Differential Analysis

Outpatient Lab and Imaging Services

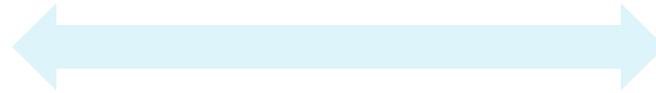
- Outpatient Lab and Imaging services are more expensive when rendered in a hospital setting.
 - Hospitals have higher overhead and operate 24/7
- If all Outpatient Lab and Imaging services shifted to a freestanding facility for SOD members, the State would realize annual savings of approximately \$5.7M.

Hospital Reimbursement Analysis

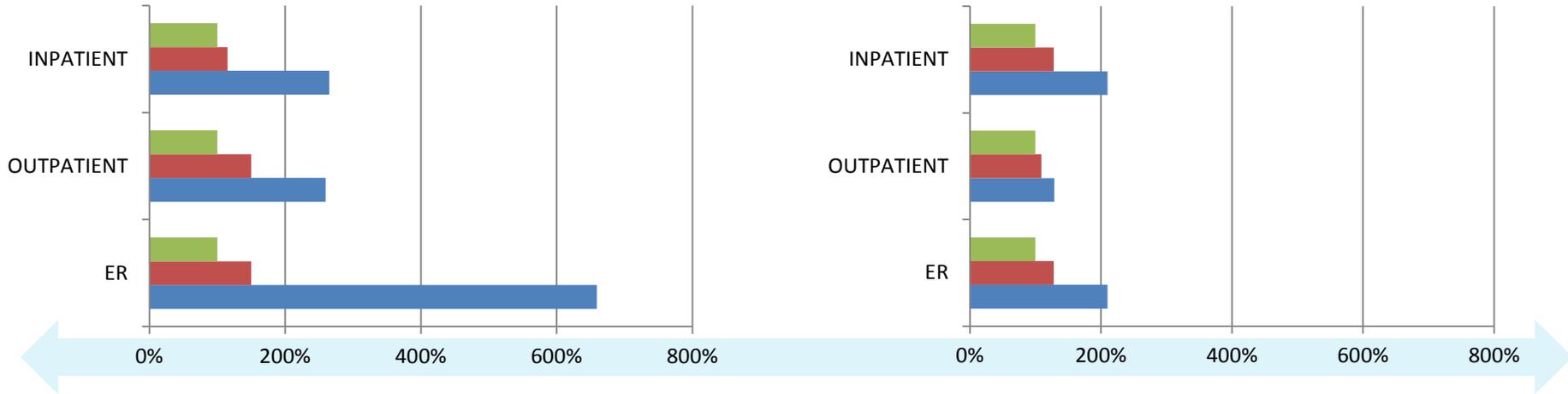
COMBINED



HOSPITAL A



HOSPITAL B



Leverage - [lev-er-ij, lee-ver-] noun

1. the action of a lever, a rigid bar that pivots about one point and that is used to move an object at a second point by a force applied at a third.
2. the mechanical advantage or power gained by using a lever.
3. **power or ability to act or to influence people, events, decisions, etc.**
4. the use of a small initial investment, credit, or borrowed funds to gain a very high return in relation to one's investment, to control a much larger investment, or to reduce one's own liability for any loss.

Commitments

Highmark Delaware will continue to pursue contract negotiations that bring outliers into new contract arrangements that incorporate pay for value provisions and include fixed increases tied to CPI and/or quality.

Opportunities

Incorporate benefit design changes that:

- Incent member behavior to utilize more cost efficient providers where possible
 - Incentives
 - Penalties
 - Reference Based Pricing
 - Rewards
- Enhance member education efforts around cost drivers

Improving Health

Increasing Patient Satisfaction

Reducing Cost

Questions